

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 03 SANAA 000663

SIPDIS

SENSITIVE

PLEASE PASS TO AMBASSADOR GROSS AND EB/CIP/SP; USAID ANE  
TS-MEZGER

SIPDIS

E.O. 12958: N/A

TAGS: [PGOV](#) [EFIN](#) [ECPS](#) [EIND](#) [EINV](#) [ETTC](#) [KMPI](#) [YM](#) [KMCC](#) [ENVIRONMENT](#) [ECON](#) [COM](#)

SUBJECT: SCENESETTER FOR VISIT OF EB/ICT DEPUTY ASSISTANT

SECRETARY DAVID GROSS TO YEMEN MARCH 24-26

SIPDIS

REF: A. STATE 38739

[1B](#). SANAA 486

[1C](#). SANAA 196

[11](#). (SBU) Post welcomes the visit of EB Deputy Assistant Secretary for International Telecommunications and

SIPDIS

Information Policy David Gross to Yemen March 24-26. You will meet Deputy Prime Minister and Minister of Planning Ahmed Sofan, and Minister of telecommunications and Information Technology Abdul-Malik al-Maolimi. As the highest-ranking Washington official ever to visit the Ministry, you will find the ROYG and industry leaders appreciative of your visit and eager to discuss with you the future of information and communications technology (ICT). You will also meet with business leaders in ICT and other fields, a ROYG working group for WTO accession, as well as have the opportunity to speak to students and faculty of the University of Science and Technology. Your visit will bring attention to the growth of the ICT industry in Yemen, and to the important link between an emerging democratic society and the free flow of information.

-----  
ECONOMIC OVERVIEW  
-----

[12](#). (U) One of the 25 poorest and least developed countries in the world, Yemen's real GDP per capita is approximately 800 USD. According to the World Bank, GDP growth for 2003 was 2.8 percent, which does not match population growth greater than 3.5 percent annually. Unemployment is estimated to be 35 percent. Oil resources, which account for 35 percent of GNP and roughly 80 percent of government revenues, are expected to decline significantly during the next decade. On macro-indicators, Yemen has demonstrated fiscal discipline over the last six years, reducing inflation and showing balanced budgets, however, without foreign investment and domestic development, Yemen faces a grim economic future. The one bright spot on the horizon is a 2.5 billion dollar investment in a 6.5 metric ton a year natural gas liquification plant due to come on line in 2008. This plant is expected to help diversify Yemen's economy and reduce its dependence on oil. Telecom is another high growth industry that shows promise -- often in spite of government policies.

-----  
Trade and Investment  
-----

[13](#). (U) The World Bank considers Yemen to be among the most open and trade liberalized countries in the MENA region. Oil exports, however, represented more than 90 percent of total merchandise exports in 2003. Of the remaining 10 percent, products such as fish, coffee, fruits, and vegetables are low value added.

[14](#). (SBU) Weak legal institutions and ill-equipped commercial courts discourage foreign investment in Yemen. Judges are often unfamiliar with commercial law, and since the unification of North and South in 1990, conflicting laws remain on the books. Cases may take years to be heard and then stagnate in the appellate process. In the rare instance when a case is decided, it is rarely enforced. Without a clear land-titling system, limited ability to collateralize against property, and courts' reluctance to enforce default judgments against property collateral, domestic investors are also reluctant to invest their money in new businesses.

[15](#). (SBU) One of the greatest obstacles to direct foreign investment in Yemen is the non-transparent and protracted nature of the tendering process. Some American companies have had problems with the confidentiality of their bids, while others were later overturned and rewarded to competitors. Winning companies often have close ties to

government officials or powerful local business interests. Post has raised concerns about the tendering process at the highest levels of the ROYG and repeats often that a sound tendering process is necessary for increased Foreign and American investment in Yemen.

-----  
Telecommunications: A Mixed Bag  
-----

16. (U) Yemen has one of the lowest levels of telecom penetration in the region, which in turn is among the lowest rates in the world. Only 1.5 percent of all Yemeni households have phone lines, although the ROYG has made progress in its goal of adding 3 million additional phone lines by 2009. Even with a growing number of mobile subscribers, many Yemenis still lack access to basic phone service. Less than one percent of the population has internet access at home, and a fraction of these have broadband services (although ADSL and VSAT are available in some areas). Long distance rates are astronomical and Yemen charges high termination fees for incoming calls.

17. (U) In many respects, however, Yemen has made good telecom decisions that offer great potential for growth of the industry. Yemen has been installing digital lines since the 1980s, resulting in a telecom backbone that is now almost entirely digital. The Public Telecommunications Corporation (PTC) is installing fiber-optic cables to all regional capitals as part of its current expansion. This will allow for high volume data backhaul from remote areas, and offers the possibility of a nationwide broadband system in the future. Fiber-optic lines currently connect Yemen to Saudi Arabia and Djibouti, and will soon reach Oman. Many remote areas tap into the fiber-optic network by microwave, but the PTC intends to replace this with more extensive fiber-optic systems in the future.

18. (U) Yemen has also developed a limited policy of technology neutrality in the wireless sector, and is the only country in the region to offer consumers a choice between CDMA and GSM products. Spacetel and Sabafon began providing GSM service three years ago and now have over a million subscribers. CDMA technology is advocated by the PTC and is used by the state-owned wireless company Yemen Mobile. CDMA is also used to provide local fixed wireless access in more remote areas. This system currently provides voice technology to approximately 200,000 people, and may eventually be used for data transmission (ref c).

19. (SBU) Despite positive steps, Yemen remains hampered by its monopolistic tendencies. TeleYemen, the national phone company once owned by British Telecom, has been reacquired by the ROYG. The French company Alcatel provides services, but ownership is divided between the PTC and the National Post Office. After allowing private growth in the wireless market, the PTC entered the field with its own government-owned service. Both internet providers are owned by the government, as is the long-distance service. The ROYG is very protective of this income and would like to see all future investment directed through the PTC.

10. (SBU) The Ministry of Telecommunications readily admits there is a clear need in Yemen for an effective telecom regulatory body. The Minister of Telecommunications also serves as the head of the existing regulatory office, and directs the PTC. This situation produces, at the very least, the appearance of conflict of interest. The GSM CEOs are sure to raise this issue during your lunch, and will likely cite the long-awaited third wireless tender. The ROYG has said that it will only accept bids for GSM service and will not allow new competition in CDMA. Privatization of PTC interests or TeleYemen is not currently on the table. Although there are few believers within the Ministry or PTC in the benefits of competition, there does exist a growing awareness that the lack of proper regulation discourages investment in this important sector.

-----  
Yemen and the WTO  
-----

11. (U) Yemen is making progress in trade reforms necessary for WTO accession and eventually a Free Trade Agreement (FTA) with the U.S. Key ministries have a broad mandate within the ROYG to draft the necessary legislation and create regulations to comply with international standards. The ROYG has created an effective inter-agency mechanism to direct these activities. Significant obstacles remain, however, and the ROYG will have to demonstrate to the WTO that it can implement the planned reforms. ROYG aspirations to accede to the WTO within one year, while admirable, may be too ambitious. At November 2004 TIFA Talks, USTR officials suggested that Yemen quickly adopt the Information Technology Agreement to demonstrate their commitment to WTO accession. You may want to raise this with a number of your

interlocutors, including WTO Trade Negotiator, Nagib Hamim.

¶12. (U) The Ministry of Telecommunications was not represented in initial TIFA talks held in Washington in November 2004, however ICT issues were raised for the first time in follow-up talks in Geneva. The Yemeni TIFA team is aware that telecom is important to the USG, and that ICT issues have posed problems for other countries' accession to the WTO. Yemeni officials appear unaware of the many steps that will be expected of them, including building a regulatory body and liberalizing ICT markets. Post recommends you raise these two points directly with both the Minister of Telecommunications and with Deputy Prime Minister Sofan when you meet with them. You can add that we have a number of mechanisms to assist in this process through MEPI and USAID.

¶13. (SBU) DPM Sofan will likely ask you for increased U.S.-Yemen trade and investment cooperation. Recent U.S. companies' experiences with unsound tendering processes and non-competitive practices have made it necessary for post to reiterate that in the USG view, the investment climate must improve before American firms will invest in Yemen. We encourage you to echo this message and provide a perspective on what U.S. companies seek in an investment climate.

-----  
Bios of al-Moalimi and Sofan  
-----

¶14. (U) Bio note: Abdul-Malik al-Moalimi was born in 1947. He is Chinese educated, with a BA in Engineering and a Diploma in Administration. He has served before as Minister of Telecommunications (2001-2003), and as Deputy Minister of Education (1998-2001), and Deputy Minister of Labor and Vocational Training (1990-1992). End bio note.

¶15. (U) Bio note: Deputy Prime Minister and Minister of Planning and International Cooperation Ahmed Mohammed Sofan was born in 1958. He has a High Diploma in Economics and Political Sciences from the UK (1970). He has a license in Sharia and Law, Sana'a University (1985). Sofan has served as Minister of Planning and Development since 1991. End bio note.  
Khoury